

SUMMARY ANALYSIS OF AMENDED BILL

Author: Revenue and Tax Comm. Analyst: Roger Lackey Bill Number: AB 2808

Related Bills: See Prior Analysis Telephone: 845-3627 Amended Date: 04-28-98

Attorney: Doug Bramhall

Sponsor:

SUBJECT: FTB, LAO, BOE and DOF Report To Legislature On Tax Provisions

- ☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced March 23, 1998.
- ☐ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- ☒ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced March 23, 1998.
- ☐ FURTHER AMENDMENTS NECESSARY.
- ☐ DEPARTMENT POSITION CHANGED TO _____.
- ☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED March 23, 1998, STILL APPLIES.
- ☐ OTHER - See comments below.

SUMMARY OF BILL

This bill would provide that before each regular session of the Legislature, the Legislative Analyst (LAO), in consultation with the Franchise Tax Board (FTB), the State Board of Equalization (BOE), and the Department of Finance (DOF), would report to the Legislature the effect of tax increases, reductions, exemptions, credits, deductions, exclusions, redistribution, special accounting treatments, special valuations, special rates, special methods of reporting relating to property tax, personal income tax, bank and corporation tax, and any other tax change whose effect is projected to increase or decrease state revenues by \$10 million or more in the first year of full implementation.

In addition, the FTB or BOE prior to a hearing on a bill presented before the Assembly or Senate Revenue and Taxation Committee, would prepare an analysis for any bill that would increase, decrease, or redistribute any tax by more than \$10 million.

SUMMARY OF AMENDMENT

The April 28, 1998, amendment deleted the language of the bill and added new language as provided in Specific Findings.

DEPARTMENTS THAT MAY BE AFFECTED:

___ STATE MANDATE

___ GOVERNOR'S APPOINTMENT

Board Position: ___ S ___ O ___ SA ___ OUA ___ N ___ NP ___ NA ___ NAR ___X___ PENDING		Agency Secretary Position: ___ S ___ O ___ SA ___ OUA ___ N ___ NP ___ NA ___ NAR DEFER TO _____		GOVERNOR'S OFFICE USE Position Approved ___ Position Disapproved ___ Position Noted ___ By: _____ Date: _____
Department/Legislative Director Johnnie Lou Rosas		Agency Secretary 5/7/98		

Also, the amendment incorporated some of the suggested changes provided by the department's analysis of AB 2808 as introduced March 23, 1998.

The amendment resolved some of the implementation concerns identified in the department's analysis of AB 2808 as introduced March 23, 1998. The new and remaining implementation concerns and an additional technical concern are included below.

Except for the discussion of this analysis, the department's analysis of AB 2808 as amended March 23, 1998, still applies.

Specific Findings

This bill would provide that before each regular session of the Legislature, the Legislative Analyst (LAO), in consultation with the Franchise Tax Board (FTB), would report to the Legislature the effect of tax increases, reductions, exemptions, credits, deductions, exclusions, redistributions, special accounting treatments, special valuations, special rates, special methods of reporting relating to personal income tax, bank and corporation tax and any other tax change whose effect is projected to increase or decrease state revenues by \$10 million or more in the first year of implementation.

The report would include the following:

- An analysis of each provision (exemption, credit, deduction etc.) that reduces, increases, or redistributes the amount of tax payable, with an estimate of the revenue loss for a four-year period, including the current fiscal year, and a citation of the authority for the provision.
- The effect of each provision on the distribution of the tax burden by income class including the number of taxpayers within each income class affected by a specific bill and the average impact of the bill on taxpayers within each income class. The distribution impact for personal income taxpayers shall be based on adjusted gross income class, and for corporations the distribution impact shall be based on total gross receipts class.
- An assessment of the intended purpose of the provision, whether the provision is achieving that objective, and a recommendation for retaining, eliminating, or amending the provision.

This bill would provide that if the LAO requests from a state agency information necessary to complete its report or analysis, the state agency would cooperate with the LAO and provide the requested information in a timely manner.

This bill would provide that the FTB or BOE prior to a hearing on a bill presented before the Assembly or Senate Revenue and Taxation Committee, would prepare a written analysis for any bill that would increase, decrease, or redistribute any tax by more than \$10 million. The written analysis would include the same information as provided above by the Legislative Analyst Office.

This bill would specify that the analysis provided by the FTB or the BOE would be available to the Legislature and the public.

Implementation Considerations

This bill provides numerous terms, such as "redistributions," "special accounting treatments," "special valuations," "special rates," "special provisions," that are unclear and would require clarification before this bill could be implemented.

State tax law contains a number of distinctions between types of taxpayers. For example, the minimum franchise tax for certain corporations involved in gold or quicksilver mining is \$25, rather than \$800. Limited liability companies are required to pay an \$800 tax and a fee while limited liability partnerships pay only an \$800 tax. S Corporations are not subject to the alternative minimum tax and pay a lower franchise tax rate than other corporations. Individuals are taxed at rates ranging from 1% to a 9.3%. Many organizations, such as churches and nonprofit charities, are exempt from taxation. It is unclear whether such distinctions would be considered "special rates" or "special methods of reporting" of any item subject to tax.

The FTB currently provides revenue estimates for each legislative bill that affects the FTB and the state income and franchise taxes. Generally, this revenue estimate projects the impact for three fiscal years and discusses how that impact was determined. This bill would require a projected impact for four fiscal years and would significantly increase the amount of detailed information that must be provided if the bill's effect equals or exceeds \$10 million in the first year. This information includes an analysis of the number of taxpayers within various income or receipts categories and a breakdown between single and married taxpayers and businesses and households. It would be impossible to provide this level of detail on all bills. The statistical requirements could be more effectively met if it were limited to bills whose effect equals or exceeds \$50 million and if the detailed information were required only when feasible.

Technical Consideration

The April 28, 1998, amendment would provide that the distribution of tax burden for personal income tax would be by adjusted gross income, and for corporations the distribution would be by total annual receipts. The distribution classes use the same whole number to end one class and begin another (for example: \$20,000 to \$50,000 and \$50,000 to \$100,000). It is unclear what class taxpayers would fall into if their adjusted gross income or total annual receipts equaled such a number (for example \$50,000). Tax law is generally written in such terms as "0 to 19,999" and "\$20,000 to 49,999."